

## **MEGA Response to EC Questions 8 and 10**

Numerous external forces – markets, fuel prices, environmental policy and other factors – impact market dynamics, both via price signals and impacts to the supply curve in any given jurisdiction. Moody's Investors Service summarized the issues currently facing competitive retail markets in a November 2012 publication<sup>1</sup>: "A triple-whammy of low natural gas prices, tepid volume growth expectations, and rising operating costs continues to compress the margins and weaken the cash flows of most of the unregulated power companies." Moody's goes on to point out that U.S. unregulated power companies have been struggling for about four years.

One of the biggest game-changers in America's energy industry today is the growing issue of gas-electric harmonization. As Environmental Protection Agency regulations have been implemented to reduce air emissions from electric generating stations, many of the nation's baseload coal plants are being retired prematurely, and at an aggressive pace. Due to lower emissions and low market prices – in part brought about by the shale gas revolution – natural gas is becoming the country's fuel of choice. However, serious disconnects between natural gas and electricity markets and infrastructure issues create challenges for the rapid conversion. The Federal Energy Regulatory Commission has an open docket on the subject, and continues to host technical conferences discussing the various speed bumps the industries face as they strive to come together in a way that benefits both.

Additionally, the premature retirements are forecasted to create localized reliability issues as capacity declines. The North American Electric Reliability Corp. (NERC) projects such concerns both in the Midwest ISO footprint and in the PJM footprint – the two regional transmission organizations serving Michigan.<sup>2</sup>

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<sup>1</sup> *Rising Rating Pressure for Investment-Grade Issuers as Spec-Grade Restructurings Move Center Stage*, Moody's Investors Service, November 9, 2012, p. 1.

<sup>2</sup> NERC Long Term Reliability Assessment 2012, p. 10

#### Risk Assessment Summary

Impacted Assessment Area(s)	PJM MISO SERC
Impact Type	Resource Adequacy - Significant generator retirements can cause capacity deficiencies and may affect the power system's ability to meet peak demands.
Magnitude of Impact	Operating Reliability – Local transmission reliability impacts due to large plant retirements 44 GW of Fossil-Fired Generation Confirmed to Retire 24 GW of Fossil-Fired Generation Projected to Retire
Likelihood of Impact	Confirmed retirement capacity is very likely to retire based on the current schedule. However, it is possible that these plans change in the future depending on changes in regulations, technologies, and fuel prices. Short terms; a majority of the retirements are expected by 2016

#### Recommendations

NERC	NERC should continue to monitor retirements and emerging reliability issues stemming from significant generator retirements in the <i>Long-Term Reliability Assessments</i> .
Generator Owners and Operators	Generator Owners and Operators that are disconnected from wide-area planning functions (e.g., generator owners operating in an ISO/RTO), should provide Planning Coordinators timely and accurate information about the retirement plans for their units in order to adequately assess any reliability concerns. While changes to market rules are not necessarily needed, discussions should occur and expectations should be shared with independent authorities on reliability.
Planning Coordinators	All Planning Coordinators should employ available tools and processes to ensure that BPS reliability is maintained through any resource transition. Regional wholesale competitive market operators should ensure markets are functioning effectively to support the development of new replacement capacity where needed.

